

SFC Reprimands and Fines Hooray Securities Limited for Breaches of Anti-Money Laundering Guidelines, the Securities and Futures (Financial Resources) Rules and Code of Conduct and Lack of Internal Controls

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The SFC has reprimanded Hooray Securities Limited and fined it \$700,000 for breaching the Money Laundering: Revised Guidance Notes (Anti-Money Laundering Guidelines), the Securities and Futures (Financial Resources) Rules (FRR) and Code of Conduct and lack of internal controls. The reprimand and fine are the result of a settlement between the SFC and Hooray Securities (Notes 1, 2 and 3).

Breach of Anti-Money Laundering Guidelines

Between September and November 2001, Hooray Securities acted as the selling broker in a number of significant non-AMS transactions in the shares of:

- Karl Thomson Holdings Limited;
- Gold Wo International Holdings Limited;
- Eforce Holdings Limited;
- South Sea Holding Company Limited; and
- Fourseas.com Limited.

Following these transactions, a large portion of the sale proceeds (ranging from \$39 million to \$81 million representing 33% to 60% of the proceeds) was transferred by the sellers to the accounts of five parties, including four BVI companies, for no discernible reason. The accounts of the four BVI companies with Hooray Securities were opened shortly before the transactions. The flow of funds could not be traced beyond the BVI companies because the funds were subsequently transferred out of Hong Kong.

These transfers were suspicious and were noted by Hooray Securities to be unusual. However, Hooray Securities failed to make any inquiries with the sellers into the reason for the transfers in order to fulfil the requirements of the Anti-Money Laundering Guidelines. Further, Hooray Securities had no internal policies or procedures in place to ensure compliance with the Guidelines nor had it appointed an officer to be responsible for disclosure by staff members of suspicions about a person, transaction or property.

Breach of FRR

Hooray Securities failed to maintain the requisite liquid capital on a total of eight days between May 2003 and March 2004 as a result of mistakes in calculating its liquid capital returns.

Breach of Code of Conduct by employee

Between July and September 2004, a licensed representative of Hooray Securities breached the Code of Conduct (Note 3) as a result of the failures of Hooray Securities to:

- ensure tape recordings were maintained for at least three months;
- implement measures to check the handling of orders by account executives by listening to tape recordings and checking order placing records; and
- prevent discretionary trades from being conducted before receipt of proper written authorisations from clients.

Lack of Internal Controls

Between 27 July 2002 and 20 August 2003, a former sales director of Hooray Securities opened seven accounts in the name of seven persons given by a third party who was not a client of Hooray Securities. Without any written authorisation, the third party gave orders to the director to conduct

transactions in the accounts in the shares of New Chinese Medicine Holdings Limited. Of the 30 days when New Chinese Medicine was traded in August and September 2002, the third party placed buy/sell orders through the accounts at the same price on 11 days.

Hooray Securities had no written guidelines or procedures requiring a written authorisation for orders placed by a third party on behalf of an account holder. Further, nobody of Hooray Securities checked the contents of the calls recorded by the tape recording system to ascertain whether orders had been properly executed.

The SFC concludes that Hooray Securities has been guilty of misconduct and its fitness and properness has been called into question. In settling its disciplinary action and deciding the level of fine, the SFC has considered the Disciplinary Fining Guidelines (Note 4) and all the circumstances of the case including the fact that:

- the degree of breach of the Anti-Money Laundering Guidelines was serious;
- Hooray Securities was warned twice by the SFC in March and November 2002 in relation to mistakes in FRR computation;
- the number of days on which the FRR was breached was substantial;
- a responsible officer, who was unqualified to do the FRR computation, was nonetheless responsible for attesting the liquid capital accuracy; and
- there was a clear pattern of mismanagement and inadequate internal control procedures in Hooray Securities.

The SFC considers the settlement to be in the interest of the investing public and in the public interest, taking into account the following factors:

- the level of fine sufficiently reflects the gravity of the infractions;
- Hooray Securities co-operated with the SFC in coming to a settlement; and
- Hooray Securities has since changed its management team and the two previous responsible officers have left the company.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "The SFC takes a tough view towards failures to implement adequate anti-money laundering measures. In this case, Hooray Securities did not have in place any anti-money laundering controls. Substantial amounts of money were transferred to BVI companies of unknown ownership. Hooray Securities had an obligation to question these suspicious transfers but failed to do so. It is this type of behaviour which endangers the integrity of Hong Kong's market and financial system. Any similar failures will be dealt with harshly. All market participants are reminded that the failure to report suspicious transactions may attract criminal liability under the Organised and Serious Crimes Ordinance and/or the Drug Trafficking (Recovery of Proceeds) Ordinance."

"As for the other breaches, the SFC reminds licensees that they should take necessary and appropriate steps to ensure compliance in all aspects of their business. Responsible officers who sign an FRR return will be held responsible for its accuracy. The combined effect of these transgressions, together with Hooray Securities' past record, highlights some serious management failures within the company."

Ends

Notes to Editor:

1. Hooray Securities is a corporation licensed to carry on Type 1 (dealing in securities) regulated activity.
2. The relevant version of the Money Laundering: Revised Guidance Notes was issued by the Securities and Futures Commission in July 1997.
3. The relevant version of the [Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission](#) came into effect in April 2003.
4. The [Disciplinary Fining Guidelines](#) are available at the SFC's website at <http://www.sfc.hk>.